The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta April 10th, 1945.

VOLUME 21

I N D E X

Volume 21

April 10th, 1945

WITNESSES

EXHIBITS

9.30 A.M. Session,
April 10th, 1945.

Memorandum of Corrections of Transcript
Volume 15, Pages 1274 to 1292
Evidence of J.A.McCutchin
(Handed in by Mr. Harvie, K. C.)

Page	Line	Correction
1275	1	"transmission" should be "transmittal".
	10	"surface" should be "sub-surface".
1276	2	"entire area" should be "large area".
	5	"small area" should be "smaller area".
	5	Should have a period after "area" and a capital "M" beginning the sentence.
	9	"reducing" should be "reduced".
	15	Re-arrange words to read: "on the estimate made the additional gas reserve would be 1.056".
	17	"this method" should be "the general method".
	20	After the word "declines" insert words "from wells".
	20	Change "the well" to "this well".
1277	8	Insert the word "gas" after word "Producing".
1278	29	Change the word "production" to "area".
1279	5	Change the word "your" to "my".
1280	3	Change the words "that added" to "the data".
	5	Change the word "repressuring" to "the re-absorber".
1281	3	Add the words "a large amount" after "putting".
	4	Change the word "longer" to "plant".
	5	Delete the word "you" at end of line.
	15	Change the word "leave" to "load".
1283	5	Change the word "going" to "Operating".
	7	Change the word "pressure" to "repressure".
	8	Change the word "their" to "this" and the word "if" to the word "but".
	20	Insert between words "be" and "as", the word "handled".
1284	5	Change the number "600#" to "400#".
	6	Insert words "at lower pressure" after the word "displacement".
	6	Change the word "less" to "more".
	7	Change the word "amount" to "rate".
	21	Change "I had" to "there would be".
1285	26	Change the word "premium" to "contract".
1287	21	Change the word "outlet" to "alkylate".
1289	4	Insert the word "surface" before the word "rental".
1291	18	Change the word "to" to the word "as".
1292	3	Delete the words "takes to" and "it" and change the word "produce" to "Produces."
1294	8	Change the word "as" to the word "Yes".
1296	29	Insert the word "at" after the word "so".

Memorandum of Corrections of Transcript
Volume 18 - Page 1441
Cross Examination of J.O.Galloway
(Handed in by Mr. Harvie, K. C.)

Page	Line	Correction
1441	19	Change the word "free" to "sweet".

MR. CHAMBERS: Mr. Hill has some typographical changes but I am having it typed and it will probably not be ready until tomorrow.

THE CHAIRMAN: Then you can hand it to Mr. Cutler and it is suggested that two copies would be made, one of which will go in the current volume and another copy to put in the volume to which the correction applies.

MR. CHAMBERS: Thank you.

Edgar G. Hlll having been duly recalled,
Cross-Examination by Mr. Steer.

Q I wonder if Mr. Hill has that statement?

A Yes, we have it.

MR. STEER: Perhaps it should be put in now.

THE WITNESS: I would like to say this, this is definitely correct. We went over it last night and there might be a few little differences from what I compiled in the recess yesterday but this is the one I want to stand on.

DOCUMENT PRODUCED HERE
MARKED AS EXHIBIT 61.

THE WITNESS: Mr. Steer, this includes the additions to the cost of this gas purifying plant which were in my supplementary report. They are all added together and the totals come out right. If you add the three totals they come out with a total which is arrived at by adding the value of the purifying plant in my first report to the additions which I added in the supplementary report, the four or dollars. They are all in here and it is correct now.

MR. STEER: Now is it satisfactory, Sir, - I may finish with Mr. Hill before I can have an opportunity of consulting about this statement and I would like to reserve that and go into it later.

THE CHAIRMAN: All right.

Q MR. STEER: You were telling us yesterday, Mr. Hill, about your instructions and I understood you simply got a telephone message from Mr. Bimal in Toronto asking you to come out here and value the natural gas position of the Royalite Oil Company Limited?

A That is correct.

Q And when you came here you got from the officials of the Royalite Oil Company Limited a description of the property that you were to value?

A Yes.

Q Just how was that description given to you?

A It was given to me verbally. Verbally and also in the form of inventory notes, the description of the property which was to be included in the utility account of Madison.

Q So that the Royalite at that time had decided on the severence?

A That is, had decided what.

Q On the severance of this gas division, as you call it?

A Now whether they had decided, I do not know, but they knew that there was an imminence of that severance at least. They may have known, I do not know what they knew but they asked me to value certain property and I did.

Q Well the inventory which you got, - I do not suppose you have it?

A Oh I have it, I think I have it, in part at least it is a pencilled list of equipment.

Q Can you produce it?

A Sure.

MR. STEER: Mr. Chambers, have you a copy of the agreement between the Royalite and the Madison.

MR. CHAMBERS: We have but I do not know whether it is here.

MR. JOHNSON: No, but do you want it?

MR. STEER: Not at the moment.

MR. CHAMBERS: It will be put in.

MR. STEER: All I am interested in is the description, I suppose the description is in general terms?

MR. JOHNSON: Very general.

Q MR. STEER: I do not want it , Mr. Hill, if you need much time about it; that inventory which you got would cover things like the compressor station , the purifying plant, the scrubbing plant, the power plant, the electric plant, the steam plant, - is that the kind of thing which would be included in the inventory?

A That was all that I was asked to value, yes, and the pipe lines.

Q Yes. If you can conveniently locate that inventory?

A I have it right here.

Q Perhaps you had better produce it?

A This is my working papers copy.

Q Yes (document produced by Witness)?

A I think they are all here. These were prepared by Otto Miller of the Company.

Q Let me look at them. Now these are documents prepared by the Royalite Company?

A That sheet which you have there I think is probably in my hand-writing. The others were all prepared by Royalite. That one is typed (indicating).

Q This one is typed and you say that is yours?

A I think it is, from a mimeographed sheet from the Company.

Q From information given to you by --?

A The men in the Company who gave me the information, Mr.Miller

and Mr. Phelps, the chief engineer, and Mr. Dodds. He handled the pipeline and Mr. Miller handled the plant and Mr. Phelps answered any questions which I wanted to ask.

Q So that the upshot of it is that officials of the Royalite Company told you what was going to be transferred and gave you these inventories and these inventories cover all that you were to value, am I right in that?

A I do not believe that you will find there inventories of all the miscellaneous structures. I had to go out in the field and get those myself but they are substantially all, they cover the major items of the plant account.

Q I see. Could these all be marked as one exhibit?

A They are the only copies I have. There ought to be some others.

Q They are not of as much use to you now, Mr. Hill, as they may be to us?

A There ought to be some way of keeping copies of them so that I would not be out my records.

MR. STEER: We will be perfectly satisfied if you want to make copies.

THE CHAIRMAN: I think you can have them back.

THE WITNESS: That is fine.

THE CHAIRMAN: Not immediately.

THE WITNESS: No, that is all right.

DOCUMENTS PRODUCED HERE
MARKED AS EXHIBIT 62.

Q MR. STEER: And having gotten those instructions and having had these conversations you tell us about with the Royalite Company you proceeded out to the field, you went out to the field and proceeded to do --

A To do my stuff.

Q Yes, and you assumed that you were to adopt the principle of reproduction costs new less depreciation?

A Yes.

Q You had no discussion about what principal you were to adopt with anybody, prior to going out to the field?

A Now that may have been discussed with Mr. Trammell. I think we did have a discussion and I think that it was talked over with Mr. Chambers and Mr. Trammell and it was my opinion that the reproduction cost should be computed in the way I computed it.

Q And why did you form that opinion, - you have had a good deal of experience in these valuations, have you not?

A Yes.

Q Public Utility valuations and expropriation valuations?

A Yes.

Q Now just why did you decide on the reproduction cost new?

A Because that basis gives effect to the price levels at the date of the valuations and so indicates values in terms of the going dollar.

Q And do you say that that is the principle that is generally used in the valuation of public utility properties today?

A No.

Q What is the principle?

A The principle depends on the body before whom you are talking.

Q Yes.

A In the State of Ohio the law requires utility valuations to be made on the basis of reproduction cost. The Inter-

State Commerce Commission has in its valuations used reproduction cost.

Q They have used it?

A Yes.

Q Yes?

A All its valuations of pipe lines are based on reproduction cost as at the date of the valuation. The Federal Power Commission adheres only to the basis of original cost.

Q What about the Supreme Court of the United States?

A They used it in several recent cases.

Q Now you did examine the book cost ?

A Yes.

Q For what purpose did you examine them?

A I wanted to get familar with going costs in this part of the country. I had to get the inventory, and the inventory which was given me there, I had to go back into the books and see that I had a cost record, that I knew when it was bought and I wanted to get also an index of labour performance. To get all the information I could.

Q Of course you would not have to go back to the book costs for these old items, that information could be gotten much more readily from other sources I would think?

A Not today. Today the manufacturers are so busy they do not have time to answer your letters asking for costs of a certain piece of equipment. They just do not have time.

Q Did you study the amount of depreciation which was taken on the books?

A No, I did not study it. I knew what it was because I could see from the various cost records what the depreciation was.

Q You have not a record of that here?

A No, I do not have it.

Q How did you approach the problem, Mr. Hill, from the point of view of valuing a plant which had been operating as a public utility or from the point of view of a plant that was being expropriated?

A Well of course the plant had not been operated as an utility.

Q All right, we will leave that at one side but my question is, did you approach it from the point of view as a plant that had been operated as a public utility or from the point of view of an expropriation, or from any other point of view?

A The point of view I was using was this, I cannot quite answer your question "yes" or "no" but I took this plant as I found it and I made my best estimate of what it would cost to reproduce it at December 15, 1943, allowing --

Q November 15th?

A November 15, 1943, allowing nothing for abnormal wartime costs except the cost of materials and the increase in the hourly rate of labour. My feeling, my belief was that I would then have a figure which represented you might say the historical cost, trended to the current prices of materials and labour as at the date I used.

Q You read the Hope case?

A I know a lot of cases. I cannot talk about them.

Q You did not like that case?

A I did not like that. That was a vicious thing.

Q Because an attempt was made there to adopt the trend of cost with no success?

A No success.

Q Yes.

THE CHAIRMAN: I suppose you could ask the same about the Eastern Panhandle case or the Denver Pipeline case?

A I do not know anything about the Panhandle case. I know all about the Denver Pipe-line case. The Supreme Court approved that finding and that is all I can say.

Q MR. STEER: You did value this property pretty much as you would have valued it if it were being taken over by the State., as if it were being expropriated?

A I think that my figure is about the same.

Q Yes?

A It would have been about the same.

Q If you had been making a valuation of a plant which had been operating as a public utility, would your approach have been the same?

A. Yes, on a reproduction basis it would have.

Q Yes, but would you have approached it in the same way?

A If my client had asked me to, I would have.

Q I am suggesting you are being asked to value this property for rate base purposes, the property you will assume, having been previously operated as a public utility?

A Well I think that I would have valued it just the way as I did.

Q I see, so that notwithstanding the decision of the Supreme Court of the United States you still think that reproduction cost new less depreciation is the proper basis?

A I think it is a basis which must be considered by any regulatory body in fixing a rate.

Q What else must be considered besides that?

A Value of the service.

Q What else, original cost?

A The original cost certainly should be considered.

Q But depreciation?

A Not in the case of a company which had not previously operated as a public utility.

Q But in the case of a company that had been previously been so operated?

A Yes.

Q It should be considered?

A It should be considered, yes.

Q What else?

A Well I think that any element which, anything which would help the Commission or the Court in getting at a sound value for the property should be considered.

Q You are pretty familiar with what has gone on in this Province over the past 25 years?

A I know what happened in the Edmonton case, and I know what happened in the Valley Pipe Line case.

Q Do you know what happened in the Canadian Western case?

A No sir, I donot.

Q Do you know if that property being brought under regulations for the first time was at a basis of original cost less depreciation?

A No, I do not.

Q Now, I think you told me yesterday in answer to a question as to what should be done if this property had been destroyed, that you would not advise its reproduction in its original form at all?

A Oh, I did not mean to say that. I say I would have

reproduced it substantially as it existed, except possibly I would change the boiler house. I am not sure about that, but I would not put in the old Seaboard.

Q And what about the gathering lines?

A I have not studied tha gathering lines from the standpoint of redesign. There might be some changes indicated, but generally speaking the gathering lines have grown with the property and they have been built as necessary to gather the gas from the wells as they came in.

Q What kind of gas were they built to gather? Natural gas?

A Oh some of them were built to gather wet gas.

Q Pardon?

A Wet gas, and some built to gather gas cap gas.

Q Were they all built for the purpose of gathering wet gas?

A Well, wet in that it is all contained in the recoverable gas line, the gas in the field is generally wet.

Q Those lines that you valued all led to the Royalite absorption plant?

A No, to the Royalite Compressing Station, compressing ~~stei~~ stations.

Q And from there did they lead to the absorption plant?

A Yes.

Q So that all the gas that was gathered by these lines was taken through one or two Royalite absorption plants for the purpose of abstracting gasoline from it?

A Well, when I saw the property for the purpose of valuing it the number 2 plant was being torn down.

Q I see?

A But there was one gasoline plant.

Q And the Royalite Company had decided that it should ship the No. 2 plant up to the No. 1 plant, and that piece of

work was going on when you were making your valuation?

A Yes sir.

Q But before they had made that decision it was wet gas that was going through both No. 1 and No. 2 through these lines which you valued?

A Well some of the gas was going into No. 2 and some was going into No. 1. That is, No. 2, of course, is in the southern part of the field and No. 1 is in the central part, but generally speaking the lines that I valued did carry wet gas to those gasoline plants and to the compressing stations, the compressing stations first, and then the gasoline plant.

Q Quite so. Now your figure represents your idea of what it would cost to construct that identical plant that you saw and to construct it within a year?

A Yes sir.

Q And you contend that that value should include contractor's profit on what part of it?

A On the lines, because I think that any contractor could build them cheaper than the Company if he is allowed to be satisfied with 10% profit.

Q So that your valuation does include a contractor's profit at what rate on the cost of construction of these gathering lines?

A 10% on his labour costs, not on materials.

Q And your valuation includes also 9% for general overhead?

A Yes.

Q Did you make any attempt to put a value on the whole property as one unit, as one business?

A Well that would be arrived at - well the answer would be yes.

Q In other words, you would say that the value of the whole

is the same that you put on the value of the parts.

A Yes, in the depreciated column.

Q I suppose that you considered whether everything you valued was used and useful for the purpose of this?

A Yes, I did.

Q And is it your contention that it all is?

A I found it so.

Q Including the Seaboard?

A Yes, that is definitely useful.

Q What is your view of the consideration that ought to be given to the question of obsolescence?

A I think that obsolescence should be definitely considered if it is proven to exist.

Q Now, in what respect might obsolescence be said to exist with respect to this plant?

A The only part of the plant where I would expect that obsolescence might exist, is in the features of the Seaboard plant that have to do with the Seaboard process alone.

Q Could there be any obsolescence in the gathering lines at all?

A I did not discover any.

Q Did you consider whether the gathering lines are all connected with wells that would continue to produce gas throughout the life of this project?

A Oh no. When a well stops producing the line will be taken up and laid to some other well that is producing. In any gathering system that is true.

Q Did you make any estimate of the length of pipe line that was in the system which was unnecessary for this system as a gas business as distinct from a gasoline business?

A No, I believe that thepipe which I have included in my

estimate for the gas gathering system are all used to gather gas which eventually goes into the public service except what is used in operations.

Q You have 57 miles of pipe. I am going to suggest that Turner Valley is a virgin field and it is known to be a gas field, and ask you how many miles of pipe you think would be required to develop it as a gas field?

A I do not know.

Q What have you to say about the sizes of the pipe that would be required as compared with the sizes that you saw in this field?

A I think the sizes of the pipe that are being used are generally proper, but trunk lines are duplicated because as the system grew and the load grew, the duplication became necessary, so that we have duplicate trunk lines.

Q Where do you find those?

A Well, they run out of the plant North and South, run out of No. 1 plant North and South.

Q What about the pipe lines that fed directly into the No. 2 absorption plant, are they still in operation?

A Well as of today I would much rather you would ask the operating people just how they operate their system because I do not know how they operate it today.

Q Well you valued it?

A I valued that in 1943.

Q And what size of pipe did you value in the vicinity of the old No. 2 plant? Would you want to refer to this map?

A I would want to refer to the map. They are all down there.

Q You had a map here yesterday?

A Yes sir, I still have it.

THE CHAIRMAN: There is a large pipe line map over here, Mr. Steer, in the corner.

MR. STEER: I beg your pardon, Sir?

THE CHAIRMAN: There is a large pipe line map over here.

MR.BLANCHARD: I do not think it shows No. 2.

MR. STEER: My friend, Mr. Chambers, tells me that these pipe lines leading to the Old No. 2 plant were not used at all.

MR. CHAMBERS:- Not included in this valuation.

MR. STEER: You could verify that just for the record.

MR. CHAMBERS: We had better file that map. Have you got more than one copy, Mr. Hill?

A WITNESS: That is the only copy I have.

MR.HARVIE: Mr.Steer, if this is any good to you, go ahead and use it, this map here.

MR. STEER: Thank you. I think perhaps the proper thing to do would be to leave this question with Mr. Hill and Mr. Chambers will have someone in the box who will explain it.

MR. CHAMBERS: Yes, and we will be prepared to put in an exact copy of the map attached to his report.

Q MR. STEER: You say, however, that there were some duplications of trunk lines?

A Well there is no duplication, no needless duplication, that is, there are two ten inch trunk lines extending North and South out of the one plant, and the second of those was recently laid, in fact, I saw it being laid in 1943. I do not know the exact volume that goes through each of those lines, I cannot tell you,

but I assume and I believe that they are used and useful because they would not have been laid if they were not.

Q I see. You did not then direct your mind to the question of used and useful in making this valuation?

A Well I did definitely in the part of the plant that I saw functioning, and I saw from the size of pipe in the system that it looked to be to be a rationally designed system, adequate for the purpose of gathering large volumes of gas.

Q Yes, but I understood you to say a moment ago that you assumed the usefulness of these two trunk lines otherwise they would not have been laid by the Company, that is your statement?

A That is a correct statement.

Q So that you could not have directed your mind to used and useful in connection with those trunk lines at least?

A Well, no, because one of those was not entirely built. It was not finished when I examined it.

Q You valued it?

A Yes, I said so.

Q Quite so?

A I valued it because it was going to be finished in a few weeks and I estimated its value.

Q So that we can take it then that so far as used and useful are concerned you confined your evidence on that to the things that you saw operating?

A My definite evidence will have to be that way, because I cannot tell you how much gas flowed through every foot of every size of pipe in the system.

Q No, of course not. Nor can you tell whether or not the gathering lines system is an efficient system for

the collecting and dealing with gas alone?

A You say gas alone? I do not know what else.

Q Well you understand, of course, that we have got here two operations, one is the extraction of gasoline from the gas and the other is the disposition of the gas, you understand that?

A Yes. There is more gas gathered than there is delivered to Canadian Western because some of it is used up in making gasoline.

Q Quite so?

A And some of it used for power and fuel.

Q And all of the gas was originally gathered for the purpose of making gasoline?

A Well, away back perhaps, yes.

Q Not only away back but every foot of gas that passed through this system was passed through an absorption plant for the purpose of extracting gasoline?

A Well that is common practice, yes.

Q Yes. And that is the reason why the lines to the plant were originally constructed.

A Most of these lines, I would not want to agree with that statement. I think that is the reason that the initial construction was done in this field, because it was done before gas was supplied to Calgary, perhaps a long time back.

Q Were you aware of the passage of this statute through the Legislature, were you aware that it was being put through at the time that it was enacted?

A I think I had been told that such an Act was contemplated.

Q Now the situation at that time was that the Royalite No. 1 Plant

was operating as an absorption plant, and that there was no flare being burned at that plant. Are you aware of that?

A What year was that?

Q In 19.....what is the date of that, 1943 or '44, '43, the statute was in the Spring of '44. Now, let us look at the situation when you made your valuation on the 15th of November, 1943. No. 1 Royalite plant was operating and there was no flare?

A Well, I would not want to agree that there was no flare, because my impression is that they were burning their - I do not know.

Q You do not know?

A I do not know. I do not know.

Q You do know that the No. 2 absorption plant which you say was at that time being dismantled, had been operating a short time previously with a flare?

A I do not know anything about the flare. I assume that there was a flare.

Q There was not any place to which the gas coming from the, the residue gas from the B.A. plant could be led into a scrubber, was there? I meanRoyalite No. 2?

A Royalite No. 2, I would not be able to answer that question from my own knowledge.

Q And what about the B.A. absorption plant and theG.O.P. absorption plant? Does your knowledge carry you with regard to that?

A I would simply say that as I remember it those two plants were not connected.

Q With any scrubber?

A With any scrubber.

Q Now we will assume that the Royalite No. 1 Plant was operating and there was not any flared gas there. We will assume that the Royalite No. 2 Plant was operating and that its residue gas was being burned and we will assume that the British American Plant was operating and that its residue gas was being burned and also the G. O. P. Do you follow that?

A I do.

Q And what I suggest to you is - perhaps I had better add to my assumption. There is some more oil high pressure gas that it is considered advisable to gather and conserve. There is some more oil low pressure gas it is considered advisable to gather and conserve. That is the situation when this Board is set up.

MR. CHAMBERS: You are asking him to assume that.

MR. STEER: Yes I am asking him to assume that.

A Yes.

Q I wonder it should have been necessary for all these gathering lines and all these Plants that we have been talking about here, why it was considered necessary to transfer them to the Madison Oil Company and why not keep them with the Royalite Oil Company.

A I do not know.

Q That is why these assets which were there and used for the purpose of getting gasoline into the absorption plant.

A They are used in the utility business, primarily utility business.

Q I am wondering why it was deemed to be necessary to transfer to the Madison Oil Company the gathering lines, the Compressor Stations, the Steam and Electricity and Water Plants. Do you know why they did that?

A No, I do not. I know I have been told why they transferred

the Steam and the Electricity.

Q You have told us that the gathering lines have an average age of 7 years. That seems to be a rather short life.

A That was true. That was taking the dollar value. That was giving a greater value to the more valuable and bigger pipes.

Q Have you got your method of calculation there?

A I think I have. I can find it.

Q As I understand it, Mr. Hill, the more expensive pipes and a good deal more expensive pipe that would have to be laid in recent years compensates for the greater age of a lot of the smaller pipe of this system.

A That is true and that is what causes the average age of the system to go away down to 7 years.

Q Is that generally recognized as good engineering practice?

A Yes. That is, we try to get the average age of the dollars. Of course, a 2 inch line does not amount to as much as a 10 inch line.

Q And you have only allowed 5.52 per cent depreciation and you cannot give us any idea whether or not the amount of depreciation in the entire gathering system is the same. Do you know one of these pipes is 20 years old in this job?

A Yes.

Q And we could not allow 5.52 per cent appreciation on that pipe?

A No, I took the price of the pipe and a lot of this pipe was in good condition. Some of this pipe 20 years old is surprisingly good.

Q Yes, I know that.

A I have a record of the inspection of that pipe.

Q You will produce that.

A It will take me a few minutes to find this pipe inspection

record. I have it here.

Q You are going to let us have that later?

A I will find it.

Q Is the return fuel line to the North end of the field included in your valuation?

A No, sir.

Q To what extent were these gathering lines written off on the books of the Royalite Company?

A I do not know.

Q You did not examine that?

A I did not examine their books on pipelines at all because I took the actual as given me by the Company people and checked it for existence. I did not look at the book costs and the pipe at all.

Q I notice you have not made any allowance for salvage value.

A I do not in a valuation.

Q That is in your rate of depreciation is it?

A No, that salvage value is used in arriving at the annual rate of depreciation and I have not made any attempt at that.

Q Did you consider that at all in your amortization figures?

A I have not made any amortization figures.

Q I notice that in your computation of the depreciation on the boilers which are found at page 11 of your report.

A Yes, sir.

Q That you appear to depreciate those boilers on the basis of their life expectancy.

A Yes.

Q And the Compressors on page 10, you appear to have done the same thing.

A That is true.

Q Now that is to say with regard to the boilers which have 10 years' life and 14 years' expired life, you appear simply to take 10/24ths of that 21,000 dollars and that gives you the depreciated value of the boilers.

A That is right.

Q And you do the same thing with the compressors?

A Yes.

Q Why would not the same principle be applicable to these gathering lines?

A If we were certain that the lines would outlive their usefulness that principle would be proper.

Q That is, if we could say in 30 years the field will be through and the lines are now 7 years old, we could say that there had expire 7/37ths of their life. Now you give the lines a life of 50 years.

A That is true.

Q There has been evidence that the life of the field is around 30 years.

A I believe that evidence is arrived at by dividing the total estimated recoverable gas by say 12 billion feet a year.

Q You do not think it will be 50?

A No, I do not think it will be 50, that is not for all lines but I think there will be gas produced in the Turner Valley field probably 50 years from now. But not in great bulk.

Q There would not be enough to supply Midnapore.

A Oh yes, that has just three or four houses. When you are talking about the life of a gas field, you are making an estimate of its reserves that is reasonably accurate.

Q You do not want this Board to take 31 years then?

A I do not try to make them take any number of years. You will

take your recovery and divide it into the rate base and take the total estimated reserve and divide it into the rate base and no matter how many years they take they are all right.

Q So that if the life of the pipe is 50 years and the life of the field is not more than 30 years we would be safe in taking 7/37ths as the depreciation on this pipe up to date.

A I think in your question you said 50 years and you meant to say 30.

Q Did I say 50?

A If you mean 30, yes.

Q If the life of the field is 30 years?

A Yes, you take 7/37ths.

Q Now I have a list of wells here, Mr. Hill, that I do not know whether . . . . I will just ask my learned friend if he will have them checked and see whether those pipes leading to those wells are included in that valuation.

MR. CHAMBERS: You are not expecting us to do that immediately?

MR. STEER: No.

Q I have given to Mr. Chambers a list of wells for the purpose of having you tell me whether the pipelines leading to those wells are included in your valuation.

A I cannot tell you.

Q You cannot tell me, but you will be able to do it after consulation with someone?

A Yes. I will have to be told that.

MR. CHAMBERS: We can either have Mr. Hill go out and look at them or I could produce another witness to tell you.

MR. STEER: We would not ask Mr. Hill to go out.

You can tell us that.

Q Now this question of heaters and boilers which I find referred to on page 12 of your Exhibit 59. I notice that these costs are Royalite shop costs, is that right?

A The heaters, yes.

Q How did you compute those?

A I got that from Mr. Phelps. He got that for me. I asked him to get the current shop costs on those heaters.

Q You took those figures from Mr. Phelps?

A Yes.

Q Did you examine the books yourself?

A No, they seemed reasonable and I took them,

Q You do not know anything about the book depreciation on those?

A I do not.

Q Do you know anything about the book costs?

A No, the book costs that Mr. Phelps gave me were the current shop costs. I do not know whether it was on the books or not. It was the current shop costs at the Turner Valley shops for building heaters of that type.

Q Those heaters were, of course, in existence when you were making your valuation?

A Yes, they were in existence.

Q How long had they been in existence?

A Some have been in existence - I do not know the average age of the heaters but I would say some were new that year. I saw one being put up. The others were older but I do not know how much.

Q Can you give a proper valuation to heaters of that type without knowing their age?

A Oh yes. They are all functioning and operating on low pressure on the system.

Q In other words, one of those heaters 20 years old has the same value as one 1 year old.

A No.

Q Where do you draw the line.

A I value the account. It would have been impossible to have examined the inside of every one of those heaters. I used my judgment and that is what I was employed to do. It is a question of my judgment.

Q You cannot exercise your judgment on the value of one of those heaters if you do not know how old it is. I am suggesting to you, Mr. Hill, that every piece of equipment of that sort is eventually going to be junked.

A That is true.

Q That is right?

A That is right.

Q And if it 20 years old it is that much nearer the junk heap.

A That is true.

Q And I suggested to you a moment ago that your idea was that one of those heaters 20 years old was of as much value as one a year old and you denied that.

A I deny that, of course.

Q I suggest to you it is a little difficult to conceive how you can value those heaters without knowing their age.

A I would say that I applied a judgment figure of the amount of the total. I did not value any particular heater by itself.

Q Did you see them?

A Oh yes. I saw , I would say I saw 75 per cent of them.

Q You could have gone to the books, I suppose, and got it?

A I doubt it, but in any event I did not.

Q Now those heaters and boilers, perhaps I can put a question to you generally this way that the heaters and boilers and compressors and steam and electric and water plants, all this property which you valued was being used by the Royalite Company in connection with its Absorption Plant business.

A That was one of the uses, yes.

Q That was one of the uses served?

A Yes.

Q It of course also was useful in ultimately getting the residue gas into the Madison system. That is the other use?

A Yes. Now you have to eliminate from that in my general consent to your statement there the scrubber plant. But everything from the gasoline plant back to the well has a dual use.

Q Now on page 30, Mr. Hill, you are valuing the Compressor Stations and is your answer about book depreciation and book costs with respect to these that you do not know.

A Oh I know the labor.

Q I am talking about the book costs and book depreciation.

A I knew what the book cost was for Station No. 1. because I made an analysis of that.

Q Why would you make a valuation of the pumps?

A Because I wanted to see the prices on which the company had put, had booked certain items on the books. When I valued the Valley Pipe Line Company I found a $7000 pump on the books at $10. and I corrected it, because the pump was just as good a pump as you could buy today for $7000 and working perfectly and the $10 figure of course to me was an absurdity.

Q The reason it was on the books at that figure was because the depreciation had been written off?

A I presume it had been and that it was accounting procedure which in this particular case led to a fallacious answer.

Q If however you were valuing their property as a public utility it might not have been so insignificant.

A I would have corrected the error, what I call an error of that type, I think in any event and spoken about it at the Hearing as I did in the case of that particular pump, at the Valley Pipe Line Hearing.

(Go to page 1634)

Q Well what you did really was to restore to the capital account with respect to that item some $6,909.00?

A Yes.

Q Which had previously been written off?

A Been written off.

Q In the form of depreciation?

A By some - -

Q Is that right?

A Yes, that is right, but not in this particular case, I did not find that, I found that in the Valley Pipe Line.

Q I understand.

A But there were similar cases in this, not involving as much money but along the same lines.

Q Now did you go over all the plant for the purposes of determining whether or not too much had been taken in the way of depreciation?

A I checked most of it, that is I went over the book costs of the No. 1 compressing station. The No. 3 station had not been completed enough for the book costs to be there but what there was I saw and I also saw the book costs or the cost cards, not the ledger but the cost cards, costs of the equipment making up the power plant and the steam plant and the scrubbing plant.

Q And did you make changes in the amounts of depreciation which had been taken?

A Oh yes. I used my own judgment on depreciation, as I have set forth here in my report. I did not bother about the depreciation at all.

Q But did you have any changes made in the Company's books?

A Oh no, they did not change their books, that is not on my advice. I do not know what they did later. I did not give

them any advice about that.

Q I see. I am going to refer you now to this statement which you were good enough to give us yesterday, this statement is headed:

"Memorandum on Additional Girbotol Scrubbing Installation in replacement of existing Seaboard system."

And that is the estimate which you and Mr. Stevens-Guille prepared as to what would be required to alter the existing Girbotol plant so that it would carry the full load and scrap Seaboard?

A You can scrap Seaboard. Whether you can scrap all of the plant that is now being used - -

Q No.

A For Seaboard. Seaboard which is particularly Seaboard could be.

Q You would scrap any part of Seaboard which is not used in that list?

A Corresponding equipment.

Q Yes.

A Yes.

MR. STEER: May I have that marked.

WITNESS: There is one possible addition there. I checked it over with Mr. Stevens-Guille last night, and that is at present there is only one sulphur fumes duct from the Girbotol building over to the stacks. It is a ten inch steel pipe, and it is a question in my mind, and I am quite certain that if the Seaboard plant were scrapped and this Girbotol equipment installed, a duplicate ten inch line for a distance of a few hundred feet ought to be installed to permit inspection of the duct periodically because as you know that

sulphur fumes is a deadly poison and it must not be permitted to leak.

Q What would that cost?

A Oh it might cost in the neighbourhood of a thousand dollars, it is a small item.

MR. STEER: Yes, may I have this marked.

STATEMENT PRODUCED HERE MARKED AS EXHIBIT 63.

MR. HARVIE: What is this?

MR. STEER: It is headed: "Memorandum on Additional Girbotol Scrubbing installation in replacement of existing Seaboard system."

Q MR. STEER: You have a copy of this, have you Mr. Hill?

A Yes.

Q Will the present Girbotol unit handle the full gas load?

A It might today. They will handle 73 million feet, that is what the overload capacity is.

Q Will you look at this diagram and tell me whether it roughly discloses the system followed. (Plan handed to Witness) All I want Mr. Hill, is whether or not that is a fair picture of it?

A Yes, that is a fair picture. It is a line drawing showing the arrangement of the present Girbotol plant. Of course there are some changes and additions to it that are not shown.

Q I was going to ask you about that. Perhaps you will show us there what are the figures that represent the present existing Girbotol plant, would they be the ones in the dotted lines?

A No. The four towers are these, there are five towers.

Q There is another tower over here?

A Oh yes, there is another tower, there are five towers.

MR. CHAMBERS: Pardon me, I do not want to interrupt unduly, but I do think in fairness to the Commission and to this witness that you should indicate what you are showing the witness. I am not sure whether this is actually the Girbotol plant there or a theoretical plant.

MR. STEER: This is a rough drawing of what we conceive to be the dispositions in that plant. It is not correct in detail.

WITNESS: I would say that, I would much prefer that Mr. Stevens-Guille, who is familiar with every detail of that plant, should answer that question. I can answer it and be reasonably sure I am right, but I am not as familiar with the arrangement and the operation of the plant as he is.

Q These two pieces of equipment, the Girbotol and the Seaboard, are both under the same roof, are they?

A No, the Girbotol plant is contained in a structure which contains five, - which houses the five towers as well. Now - -

Q Of those five towers, how many are used by Girbotol?

A Two.

Q And the other three are connected up with the Seaboard?

A That is right.

Q Which you say is housed in another building?

A Another building.

Q And there are connections between it and this building?

A There are.

Q Yes. Now what are you prepared to say, Mr. Hill, does that give us a general idea of the set-up of the Girbotol plant?

A Yes.

MR. HARVIE: Are you putting that in as an Exhibit?

MR. STEER: Yes, please.

DRAWING PRODUCED HERE MARKED AS EXHIBIT 64.

MR. CHAMBERS: I suggest that this should only be marked for identification at the moment.

THE CHAIRMAN: I think the witness's answer, Mr. Chambers, protects you fully. It is just a general outline.

MR. STEER: I do not suggest for a moment it is correct in detail.

MR. CHAMBERS: That is all right.

THE CHAIRMAN: Have you any copies of this, Mr. Steer?

MR. STEER: We will furnish you with copies.

Q MR. STEER: Now the capacity of the Girbotol plant is 73 million, is that it?

A Yes.

Q With two towers?

A With two towers.

Q And with two additional towers on the Girbotol and the necessary changes made, you then would have a capacity of 146 million?

A Well if you changed everything else in proportion.

Q Yes, I am coming to that. What is the circulating rate of the reactive agents?

A I do not know.

Q You speak of a MEA solution pump, is that a spare?

A No. At present there are two MEA solution pumps, one of which is in operation and one is a spare. Now if you were to scrap the Seaboard plant you would have to put in another MEA pump because you need spare equipment for every part of that plant at all times on account of the necessity of keeping it running at all times. It is not, you cannot ever

shut it down.

Q You speak of three 125 horsepower boilers amounting to $17,700.00, why were these extra boilers required?

A To furnish the steam for the extra turbine pump.

Q Would it be possible, Mr. Hill, to take two of the existing Seaboard scrubbers and change them into Girbotol units?

A Into Girbotol scrubbers?

Q Yes.

A Yes, that would be possible.I think

Q Would it be possible to take one of the three Seaboard scrubbers and change it into a still?

A I do not know how effectively it could be done. The shell undoubtedly would have use as a still shell but what capacity it would have, I am not in a position to say.

Q I see. Then if that were done and you had a new spare Reflux pump, would you need that?

A Would you need what?

Q That spare Reflux pump?

A I think so.

Q Would that correspond with that pump you and I were talking about a moment ago, on your list?

A I have one Reflux pump now. You see we have two small Reflux pumps, I would say that a third pump would be indicated.

Q What I am going to suggest to you is that this present scrubbing plant could be made into a single Girbotol plant by scrapping certain parts of the Seaboard and using certain other parts and adding to the present Girbotol unit and the method that I am suggesting that would be followed is, as I have said, to take two of the existing scrubbers and change them into new Girbotol units, to take one of the scrubbers and change it into a still, add a new spare reflux pump,

an MEA cooler, a reactivator, and a low pressure tank and the still, is that all?

A Oh that is all - -

Q And adding a spare solution heating tank and a solution cooler and a solution pump and then adding all the pipe, valves, fittings, insulation foundations, additional MEA solution and installation now have you anything else?

A That is the same I think in general that I have outlined in the list there except you are taking the fifth scrubber and making a still out of it.

Q I see.

A I am not prepared to say whether or not that would be feasible but I do not, as I listened to your list of equipment I think it was about as I have outlined there except for that.

Q Now I am suggesting to you, Mr. Hill, that those changes could be made and the total cost of getting an up-to-date Girbotol system there capable of handling the whole load of these plants and providing ample stand-by capacity, that that could be done for $381,000.00?

A $381,000.00, did you say?

Q Yes.

A That is that, I had a figure here the other day that I made up and I would like to look at it.

MR. HARVIE: Would that include the cost of the existing plant?

MR. STEER: Any part of the existing which plant would be used.

MR. CHAMBERS: That is the Seaboard?

MR. BLANCHARD: No, that is new.

MR. STEER: Any part of the Seaboard which is required

and any additions to it that are necessary.

WITNESS: Your figure was what?

Q MR. STEER: $381,000.00.

A Well I think that the only place that we are apart is in the question of the reactivator. I think my figure was more than yours, but not startlingly more, but mostly in connection with that reactivator.

Q That is changing the one of these towers into a still?

A That is something I do not know anything about, I am not a designer of Girbotol processing plants and I would not know that.

Q Now if a competent man were to say that that could be done, that that tower could be changed into a still, you would not have any dispute with that?

A No, if he would back it up with a written proposition offering to do it, if he is a manufacturer.

Q So that assuming that that could be done, you would have no quarrel with this figure of $381,000.00?

A I think it is a little low but I would be, - I would much prefer to have a chance to do my figuring quietly and then give you my answer later.

MR. STEER: I see. I have no objection to that.

(Go to Page 1642)

MR. McDONALD: Mr.Chairman just what are they discussing? We have one exhibit 63 which refers to 110,000, and now Mr.Steer suggests 381,000.

THE CHAIRMAN: I think Mr.Steer is laying the foundation for the direct evidence he is going to lead later.

MR. McDONALD: And then Mr. Hill comes back and gives us another figure.

A WITNESS: If you take my $110,000.00 you must add it to the Girbotol equipment which is still there, amounting to $242,716.00, you do not scrap that, and then you must take most of your jointly used equipment which is necessary and add that, and then you have got to add your towers, and when you do that you get $381,000.00, and I get a little over $400,000.00. I would rather get it exactly. We are not very far apart but mostly on account of this proposed conversion of a tower into a still.

Q MR. STEER: In order to clear that up, Mr. Hill, perhaps we had better go through this. I am going to suggest now the detailed amounts that might be required to make up this figure of $380,000.00. So far as the structures are concerned we would have to make certain repairs and changes in the construction at a cost of perhaps $250.00, that is your structures?

A If you want my agreement with that, I would say my figure is quite a bit higher as you can see from the sheet I put in there.

Q I see. I think your figure is three hundred fifty, is it?

A I will have to get mine. I do not know whether that is marked as an exhibit or not.

THE CHAIRMAN: That is Exhibit 63.

I had $3,000.00 in there, Item 10.

Q MR. STEER: How much?

A $3,000.00 in there, Item 10, a twenty-foot extension on that building which would cost $3,000.00 certainly.

Q Now what I am suggesting to you is that $250.00 material and $350.00 labour would be sufficient to provide for repairs and changes in construction apart altogether from your $3,000.00?

A I understand that the $3,000.00 is not under discussion now?

Q That is right.

A Well if you do not use the reactivator you would not need as much building as I would.

Q And then we are allowing $150.00 for material and $200.00 labour for grading, fencing, works and yard improvements. You would have no quarrel with that?

A No.

Q We are allowing for flushing out of contactors and inspection before use, $150.00 for material, and $500.00 labour?

A I do not have anything on which to comment on that.

Q We are allowing $5,247.00 for Chimney trays in these two towers that are being changed?

A That is all right.

Q And we are allowing for heat exchangers and unit coolers and two 31 inch by 192 Braun or equal type Shell and tube units, $12,250.00?

A I cannot comment on those.

Q And then 8 Braun valves, $1,870.00?

A I have not any way immediately offhand to comment on that. If I had it in columnar form to sit down and look at it, I

could readily comment on it, but reading them off one by one, I cannot comment.

Q And installation and piping $858.00 for material, and $1500.00 labour. Anything to say about that?

A No sir.

Q And H_2S coolers and receivers, two 19 x 120 inch Braun shell and tube units, $5,432.00?

A $5,422.00, so that we are together on that.

Q And one 36 x 12 receiver, $1,194.00?

A I do not have any parallel unit for that in my list.

Q Additional reflux pumps, $288.00?

A That should be all right.

Q And installation and piping of H_2S cooler, pumps, $5000.00 material and $5,875.00 labour.

A Again I only repeat that if I knew what you were going to follow out, and I had the list down in columns, and I could sit here and look it over, I could give an opinion but I cannot this way item by item.

Q Well, there is not much point in pursuing that. How many of these Girbotol units have you installed, Mr.Hill?

A None. We are installing two at the moment, that is, we are supervising the installation. There are not very many of them.

Q And have you had any experience at all in conversion of Seaboard equipment into Girbotol?

A No.

Q Now, we will assume that this scrubbing plant could be made a modern efficient plant for the expenditure of $380,000.00, at a cost, I should say, of $380,000.00, and we will assume that by making those changes we have spoken of, the whole operating expense of the Seaboard units can be avoided,

and we will assume that the operating expense amounts to about $75,000.00 a year, would you advise the scrapping of the Seaboard unit?

A Well under those conditions there is only one answer, you naturally would do away with that unit as soon as you could get the materials and the permission to do so.

Q Yes. Now then, we will assume that you are advising the owner of this scrubbing plant, and it is equipped as it is today, with these two units, what would you advise a man to pay for that plant?

A On that Seaboard equipment?

Q No, you have got a plant there that contains a Girbotol unit, and it contains a Seaboard unit, and you are advising the purchaser of that unit, of that plant, now I want to know what you would advise him to pay for it?

A I would advise him to pay substantially more than $380,000.00 at the present time, I cannot tell you exactly what I would advise him to pay for it, with the close of the war as near as it seems today.

Q You are not prepared to give us a figure on that?

A Not a direct figure, no.

Q Well assume that a completely new Girbotol unit, perhaps I should say plant, we will assume that a completely new Girbotol unit of the capacity which we have been discussing could be erected there for $353,000.00, then what would your advice be to a prospective purchaser?

A Well I would say if that could be done, that is provided there is 100% stand-by equipment, and that is all that anyone would be warranted in spending for the desulphurization of that gas, for a plant to desulphurize the gas, that is I am assuming when you say that can be done for that money,

you mean that it can also have dehydrator equipment in there.

Q That is right?

A That will be a dual function as at present?

Q Yes?

A The answer goes then.

Q THE CHAIRMAN: Mr. Hill, I would just like to ask one of Mr. Steer's questions in a slightly different form. Again assume that you are advising a purchaser of this plant, would you advise him to pay a price which included the Seaboard units at a valuation of $177,597.00?

A In 1943 when I made the appraisal, I think I probably would have because I would not have been able to say when he could make the change to get out of it. Today I would not.

Q MR. STEER: On your revised figure that $177,000.00 becomes $215,000.00?

A Well I think you will find that there was in that the scrubbers, that I had not included in before. I think I told you that I had not included the scrubbers in that $177,000.00. If you take those out you will be right back to a very few thousand dollars of the same answer.

Q MR. STEER: What you say, Mr. Hill, is this, going back to my first proposition of $381,000.00, to give you a modern efficient plant with full capacity, and then I think you said that you would advise a purchaser to take the Seaboard plus the Girbotol that exists there at considerably more than $380,000.00, I am right in that?

A You see that answer sounds queer, but you forget this appraisal was made in '43, and in those days we took what we could get and operated it. We are talking about today,

I would say that as things look now, I would not pay or advise a client to pay more for that plant as a whole than the price for which it could be duplicated with modern equipment, naturally.

Q In other words you would not advise a man to pay more than $380,000.00 for this plant and assume the heavier operating costs?

A You see the matter of operating costs is something I have to assume, because you assume it, and I am assuming that is so. I do not know whether it is so or not, because I have not made any study of it.

Q That is right.

A But if there is a heavier operating cost on account of the Seaboard plant, then the price at which one should buy or pay for the combined unit, is less than the cost of a new efficient unit of course.

Q Then I am to take from what you have just said that you have not made any study of the operating costs?

A No, I have not.

Q And consequently when you told us yesterday that one man additional on the three shifts during the day would be sufficient, we are not to take that very seriously?

A I said that would be my idea of a maximum.

Q Yes?

A You asked me if any men would be necessary and I said there might be one. I just made that statement from my general knowledge as an operator.

Q Well, we will not take that very seriously then until after you have made a study of it. If an experienced engineer in connection with this work says that this new proposed Girbotol outfit can be operated without any additional

expense, you would not have any quarrel with that?

A I would. I would want to know who that engineer was, whether he had experience in operating plants in this country, whether he had experience in plants that have to be kept operating at all times, without fail, that kind of a man I would defer to his judgment.

Q I see.

THE CHAIRMAN: We will adjourn for a few minutes.

(A short adjournment was here taken).

Q MR. STEER: Now, Mr. Hill, would you be good enough to refer to the two ~~written~~ right hand columns of this Exhibit 61? You have got a figure there now of $242,000.00 as the value of the Seaboard plant, is that right?

MR. FENERTY: The Girbotol plant.

MR. STEER: The Girbotol plant.

A THE WITNESS: The Girbotol plant is right. Those are the parts of the plant that are used today exclusively for the Girbotol product.

Q Now then, in the right hand column you have some items that are jointly?

A Yes sir.

Q And assume that the change was made that we have been discussing, and that this is made and entirely Girbotol process?

A Yes sir.

Q Have you any idea as to the items in that right hand column which would still be required?

A Yes, I can express an idea there.

Q There are quite a few of them that are ticked there, and the ones that are ticked, according to my instructions, would not be necessary?

A No, I cannot agree with that.

Q You cannot agree with that?

A No, I cannot.

Q Perhaps you will go over them and comment on them and let us know what your opinion is?

A I see that the fan house is the first item on the right.That is used to house fans that pump all of the gas that goes out of the stacks, all of the sulphur gas from both plants. Now if we did not have the Seaboard process we would still have to house a fan to suck that gas over from the Girbotol plant and put it into the stacks, unless we build some new stack arrangement to put that sulphur up into the air, to do away with the present stacks. We still have to have fans and a place to put them. So that does not mean that you will get away with less than a thousand dollars for a fan house.

Q Allright?

A Now the stacks, they speak for themselves. I have got them in there at $1000.00, and it is depreciated, and the installation of the stacks, that goes with the stacks of course. The gas engine down at the bottom of the page is the engine that drives the fan, that is hooked up on to the fan drive.

Q Now before you go further, Mr. Hill, if we had this reconversion made, would it be possible to eliminate the fans altogether, keep the pressure on the stills up and vent the gas?

A I do not know.

Q Now, are you commenting on all those items that are ticked?

A The engine, the one gas engine drives the hook-up to the fan drive, and all of these items on this first page are tied up with stacks and fans. If you want to use some other method of getting rid of these gases, these things

disappear and something else comes in their place.

Q Quite so.

A Now that also applies to the fuel dehydrator. It is put in the appraisal under the heading of Purifying Plant because it is located there, but I do not believe that you can get away from that. You would need that.

Q What is that item?

A $5,000.00, the fuel dehydrator. I do not know why you ticked that.

(Go topage 1651)

Now the piping and fittings of the Seaboard Plant. A lot of that piping either has to be used in place on the ground or else replaced and my $15,000 estimate is purely an educated guess. But it cannot all be eliminated.

Q What is the purpose of that Fuel Dehydrator?

A It is used to clean up and dehydrate the fuel that is burned in the plant. It is a shop-made equipment made from an old absorber shell and is located there at the scrubber plant. It was built and set up I judge in November and I am not as familiar with its use as I otherwise would be. You could find out all about that from one of the operating men.

Q I think I had better first perhaps call your attention to this. I said $353,000 new and I was wrong there. What I should have suggested to you was that you could take $246,000 of the existing Girbotol Plant and add to that $107,000 of new construction and get a total cost of an efficient plant of some $353,000 odd.

A I could not agree to that unless as I say - I would want to have set down in writing in flow sheets to show how it is to be done before I could pass on it.

Q It has been suggested to me that some of the equipment in this plant was brought in from South America, do you know anything about that?

A I do not know of any items brought in from South America and I think I would have known about it had it been done. But then again that is something you will have to ask some of the operating men.

Q Now then, there are two pumps there now are there?

A Yes.

Q How many of those pumps would be used when your over-load capacity of 73 million was being handled? Both?

A I do not know.

Q If they are both used to handle the 73 million capacity then the addition of one extra pump as a standby would not place any extra load on your boilers.

A If they are both used?

Q Yes.

A Yes, because now ordinarily only one is used.

Q Do you say only one is used when 73 million feet is being handled, are you prepared to say that?

A I think that is a fair statement and that I have been out there when 73 million feet was going through and only saw one pump going. But again I would rather have you ask that of some of the operating people.

Q If I am right that both of these pumps are used in handling the 73 million feet, then there is not any reason for any additional boiler capacity to handle the two pumps, is there?

A That again depends on how much steam is used to operate the 73 million feet and how much would be required to operate at an additional capacity. This system passes more than 73 million feet at one time and with the peaks of your re-built plant you have to have a capacity of handling your maximum peak that you get now, plus a reasonable expectancy in the reasonably near future. That might well be 90 million feet. So that your steam used in handling 90 million feet or some other figure which represents a peak in the reasonably near future is what we have to figure for, not the steam used with 73 million.

Q I speak subject to correction. I think the evidence here is that this plant has supplied a peak of up to 80 to 85 million feet.

A The two together, the Girbotol and the Seaboard.

Q That would mean then that you say that 73 million that comes from the Girbotol would be handled with the one pump.

A I do not know whether one pump will handle 73 million from the Girbotol or not. It is my impression that it would. I am not certain and I would much rather that you ask one of the operating men because I do not know any of the operating peak figures of this plant.

Q The Steam plant, Mr. Hill. There is some material filed with the Board, Mr. Hill, which indicates that this Steam plant and the Power plant are used as to 75 per cent of their capacity by people other than this gas business. Would you be aware of that?

A I do not know the exact figure but I know they are used by other than the gas business, substantially.

Q Have you any comment to make on why under those circumstances the Steam plant and the Power plant should have been transferred out of the ownership of Royalite?

A I think that transfer . . . . Again I am talking about what is told me.

Q Well please do not do that.

A I do not know.

Q Do you know anything about the book cost or the book depreciation of the Steam plant and the Power plant?

A I knew what the book cost was. If I knew, I did not pay any attention to the depreciation.

Q Do you know who owns the meters that operate on the crude oil wells?

A Well the meters on the crude oil wells that measure the gas that is used by Madison are owned by Madison. The battery meters are owned by Royalite.

Q Does that apply to all crude oil wells, that is wells owned by independents do you know?

A I do not know, no.

Q In your dealing with depreciation of automobiles you have taken 25, three 20's and 15 per cent as a proper measure of depreciation. No, I beg pardon. You took 20 and then subsequently 10 per cent per year as a proper measure of depreciation.

A Yes, sir.

Q The material that is filed here on behalf of Madison - this is a small matter, I suppose - they took 25, three 20's and a 15. Which of you is right?

A I think I am right.

Q There is also material filed here that shows that one truck was replaced as having been worn out in service in 1944. What would you value that one?

A Well . . . . .

Q Had you valued it?

A I do not know what truck it was. If it is one of the trucks I listed here, which could be recognized by the number, why I have valued it. They are all new trucks.

Q Perhaps we will ask about that when we come to other questions. Would you turn to your report now on page 19.

A 19?

Q Yes. Your question of Going Value. I find it a little difficult to distinguish between what you claim as Going Value and what you claim as General Overhead Cost. It seems to me that what you have described here as Going Value comes squarely within Engineering Design and Supervision head that you refer to on page 14 as a part of your General Overhead Cost. Would that be right?

A No, I do not agree with you at all there.

Q What is the difference?

A One could very easily spend three per cent or five per cent for engineering and if he does not hire the men who know their business and have the experience, he will not get the results that he would get if he hired the kind of men that this company hired to do their business and they have not made mistakes.

Q What is your conception of the element of Going Value which can be valued. What does that mean?

A It means that increment of value which adheres to a business that is well built and well run above the cost of its physical complements.

Q I am going to suggest to you that a proper conception of Going Value is something different than that. I am going to suggest that if you have a Plant that is all constructed and ready to run and it has not any customers and it has not any business, then you have got something that has no Going Value. But if, after it has been built, after the necessary work has been done, to get it customers and to get it doing business then and only then has it a Going Value. Do you quarrel with that?

A No, I do not quarrel with that.

Q It seems to me there is a wide difference between your idea of engineering and construction in connection with Going Value with respect to this Company and this conception of Going Value on which you and I agree. I would suggest to you that engineering and construction problems that are handled by Imperial Oil on behalf of Madison or Royalite have not a thing in the world to do with the acquiring of business by that Company.

A No, they are separate. They are separate functions, separate actions.

Q I think engineering and construction advice they get would be very valuable in getting the plant built and ready to run but I am suggesting to you that they have got nothing at all to do with the business becoming an operating business.

A Well the advice that the Madison people get from Imperial goes far beyond the construction problems. Also these Imperial people, the top men in engineering and the operating end, are available at all times for Madison to talk with.

Q But these things have nothing to do with the Madison Company getting customers.

A The Madison Company has a customer.

Q And they got it before they had a building. They got their customer before they got the scrubbing plant didn't they?

A Well I do not know the exact date on which that contract with the Gas Company was signed.

Q The date was 1921, revised in 1925 and the scrubbing plant was built when?

A It was started in 1926.

Q So that the contract was in existence before the scrubbing plant was built, is that right. If those figures are right.

A If those figures are right, yes.

Q Now here is a definition - you know this book of Bonbright's?

A Yes.

Q Published in 1935 and here is what he says about Going Value. He is quoting now from Justice Day from the Des Moines Gas Case and he says this: "that there is an element of value in an assembled and established plant doing business and earning money - doing business and earning money - over one not thus

advanced is self-evident. This element of value is a property right and should be considered in determining the value of the property upon which the owner has a right to make a fair return when the same is privately owned although dedicated to public use."

Does that agree with your conception of Going Value?

A Yes.

Q Now this Going Value in the sense in which you have said it is properly used, that depends upon the organization being able to do business; having customers and being able to carry on. That is right?

A That is right.

Q Now if this Madison Company were not able to get gas from the producers it could not carry on could it?

A It could not carry on if it could not get the gas.

Q And if it were not able to sell its product to a purchaser it could not carry on?

A No.

Q In such case, this plant is useless?

A Except for what they could get out of it from salvage.

Q Except from salvage and except to the extent perhaps we should say except to the extent to which it could be used for carrying on the gasoline business.

A Well it would be useless for the purpose of supplying gas for public use. But if you could not get gas, you could not get gas to make gasoline out of it so it would be the same. You would not have much left but salvage.

Q I did not follow your explanation yesterday, Mr. Hill, of your explanation of this item on page 7 of 6-A, your revised report.

You have read the Girbotol contract have you?

A No, I have not.

MR. STEER: Have we got a copy of it here, the Girbotol contract?

MR. CHAMBERS: No. We could get it.

MR. STEER: I think we ought to have that.

Q Now, if I understand that contract aright, Mr. Hill, it is this. That the Royalite Company paid to the Girdler Company $25,000 as a license fee.

A $25,000 U. S. funds.

Q And that you have converted into $27,000 and that license fee entitled them to process up to 10 million feet a day of gas containing up to 1000 grains of sulphur from 100 standard cubic feet.

A That is correct.

(Go to page 1659)

Q Well then it contains provisions for the adjustment upward, if the sulphur content rises, and it contains provisions for the payment of more money if a greater quantity of gas than the 10 million cubic feet a day is processed?

A That is right, as I understand it. I had the contract explained to me but I never read it.

Q And according to the information which was given to you, in the first two years of the currency of that contract there was some two thousand odd dollars a year paid by the Royalite to the Girbotol Corporation?

A I was told that that was the case and I am now told that it was not the case.

Q Oh I see. Well what is the case?

A That the Company, in going over my report in the years since the time I made it last March, felt that I had erroneously included that amount.

Q As what?

A In the amount which I included it, let me find what I put it in at, here it is, that I should have taken more than that.

Q What page are you looking at?

A Page 54 of the original report. I put $27,500 in as the advanced royalties paid, on the Girbotol Plant in Canadian funds. Now I depreciated that $2,200. The Company said that that had been, that contract had been running for two years and that two years of that royalty already had lapsed and should not be --

Q Had been paid for?

A Out of the twenty-five thousand dollars.

Q The twenty-five thousand dollars had not been paid?

A It had been paid, the whole twenty-five thousand dollars.

Q That is what you are told now?

A Yes, by Mr. Trammell who saw the cheques. I did not see the cheques.

Q But when you were writing this report on page 7 of Exhibit 60, you thought that of the twenty-five thousand dollars only two years installment had been paid, is that it?

A I got the wrong information.

Q That is what this is intended to indicate?

A I was told, not by Mr. Trammell and not by an officer of the Company, that the deductions had come because somebody had paid in cash the two years running royalties and all I could put in was the residual, which I did. Actually it made no difference so far as the dollars are concerned because the two years have lapsed anyway.

Q It makes a little difference from this point of view, - I am wondering whether the proper way to charge up that royalty is not to do, as you thought had been done, pay it as a part of the operating cost annually?

A The Company chose to pay it in advance.

Q They chose to do it?

A They chose to do it by the same way.

Q But really that royalty should be regarded as a part of the operating cost, should it not?

A Well if it is repaid operating expenses discounted.

Q Surely?

A No then --

Q Just a minute, it comes to this that at the rate which is set out in that contact, $25,000 is the payment at the rate prescribed for the quality of gas handled for ten

million feet, $25,000 is the payment, I think it is two and a half a thousand for 10 million feet?

A For the life of the patent.

Q For the life of the patent. You can handle ten million feet a day?

A. Well I have not seen the contract but I imagine if it is like any other contract, if you pay the royalty in advance you get a discount and if you take ten million feet a day and mark it for a quarter of a cent, you would get more than $25,000.

Q What I am suggesting to you is that this payment of advance royalty should properly be regarded as not a capital charge at all?

A No, I do not agree with that because the Company chose to pay it and take the discount.

Q Yes, but the Company cannot change what is properly an operating expense into a capital charge surely?

A The repayment of royalties is a common practice and all the accountants handling them, it is a matter of accounting but I can see no reason why a prepaid royalty should not be capitalized.

Q THE CHAIRMAN: And why should they earn a rate of return on it, in addition to the discount?

A Well my only reason for saying there should be a rate of return is because they have spent it.

Q MR. STEER: Now your proposition is because the royalty was paid in advance, instead of being paid annually at a certain rate, that for that reason it is a capital charge and not an operating expense?

A That is right.

Q That is your proposition?

A That is my proposition.

MR. STEER: Thank you.

THE CHAIRMAN: Mr. McDonald?

CROSS EXAMINATION BY MR. McDONALD

Q Mr. Hill, on page 6 of your report, the second paragraph, you referred to the trend factors to known purchase prices in earlier years?

A Yes.

Q What index figures did you use?

A I used the index figure of experience, you mean what figure did I use or what published index?

Q Yes?

A I used no published index.

Q Did you take any base year between the starting point and this period?

A I would say that for equipment installed prior to 1935 or 1936, in there somewhere, I would say 1936, I used 25%. That is where I did not have the precise information but used a price index, I used 25%. I used lesser figures. On some figures I used 20% where the machinery was installed in later years, including 1939. These are general statements you understand. You might find where I used 21% or 18% but generally speaking I used that ratio. Where equipment was installed in 1938 in the case of the No.I Compressor statement I had the precise information as to the engine and the rate there I think was about 10 or 11%.

Q That is you took the 1938 price and increased it by 10%?

A I can tell you exactly what I did in the case of the engine,

but it was whatever the ratio actually developed, dividing the the 1943 price by the 1938 price. The ratio was actual. I had the two prices.

Q Oh, you had the two prices?

A Yes.

Q And you got the second price, the 1944 price or the 1943 price by consultation with the suppliers?

A In some cases, in major items, yes.

Q Now in 1943 the supplier, I might ask you this, did you consult Canadian suppliers or Canadian branches?

A I consulted the Dominion Bridge Company and I consulted the company's Purchasing Department in Calgary too, who had their own cost records of actual cost of various items over the years and when I get back to the States I talked to manufacturers of the main items, the main engine items and they confirmed my information. You see we are buying pump engines all the time and we have a pretty good idea from our own experience what that ratio is.

Q Then you got the price at the factory, f.o.b. the factory?

A In some cases I got the Canadian price. I asked the manufacturer "what would your price have been late in 1943 for a certain pump or a certain engine delivered at Okotoks, Alberta including all the charges, freight, duty, sales taxes, War taxes and everything" and I got that on the pumps. I knew what the price on the Cooper Engine was because I saw the invoice.

Q And in each instance on these you added the sales tax?

A Oh yes.

Q And any special sales tax?

A All the taxes that they were paying, whatever the Company had

to pay.

Q Now what did you do with respect to the pipe?

A I got the Company's Purchasing Department to chase down the invoices for the various sizes and weights of pipe which they had paid on dates nearest to November 15, 1943 and where they had the price, the carload price of the pipes of the kind used there and the sizes used, I used it. Where they did not have it I got the per pound price or the per ton price of the nearest size they did buy and I used that, applied that to the weight of the pipe actually in the field and those prices took into account the Company's purchasing power. They took all discounts on quantity and cash payments.

Q I take it the discounts, there is one price for less than carload lots?

A Oh these were full carload prices.

Q So is there any further discount for buying a tonnage for say 57 miles of pipe in one year?

A No, I do not believe there is in the sizes which we are talking about because today the price is pretty well pegged and I know from my own experience in the States, I bought recently five miles of twenty inch pipe at $65. per ton and the same price I would have had to pay it, had I bought a thousand miles because I know the Tennessee Gas Transmission Company which built 1200 miles, paid that price for their pipe; in other words it does not make much difference in the States today the quantity you buy so long as it is at least a carload. There are no chances today for large quantity deals.

Q On page 8, Mr. Hill, or rather on page 13 of your report,

you refer to "transportation cost", now is it fair to say this that you had in mind there that, due to the peculiar situation which existed in 1943, the Company was obliged to transport workmen to and from their employment?

A That is true.

Q Now is that not an abnormal cost?

A I think it is abnormal. I think that it would not be required to the same extent in normal times. There will always be probably some transportation or carrying of the men necessary but not to the extent that I have included it in these costs.

Q Now you included that in connection with the laying of the pipe and the handling of the pipe?

A With the laying of the pipe and the handling of it.

Q Have you included an extra transportation charge?

A No, that is not duplicated. I have it in only once.

Q How did you arrive at that, what figure have you charged either per item or in the overall costs.

A I charged the total costs of some twenty odd thousand dollars as I recall it and I split that up among the various plant items in,approximately to their proportionate overall costs, I put it in the compressor station and --

Q Can you give us the total and then the larger items?

A I will have to read them off.

Q Would you read them?

A The compressor station No.I $7,500. I will tell you, I will read the depreciated figures because they are the ones which count.

Q Yes?

A Compressor Station No.I $6,565. Compressor Station No.3 $3,750. The Gas Purifying Plant $10,148. The Steam Plant

$1,600. The Power Plant $750. I think that is all.

Q Then if you will turn to page 19 of your report, Mr. Hill, have you any specific items in mind which are at a lower cost arising out of the association with the Imperial Oil?

A Yes . I think that if it were built under ordinary sponsorship it would have cost substantially more than it did in an amount of not less than $200,000 for the capital cost. I think that it saves at least $10,000 a year in its operating cost. Those two figures I think are reasonable.

Q Yes, but what I was getting at, was there some specific item?

A All right, take the price of pipe, I think this Company bought the pipe, this pipe at, the prices which I have used in my valuation are lower than what normally would be paid by companies that were not as well established and did not have the credit and the records of payment that this Company has. I think that, based on my experience in the United States and in Canada as to the discount of securties, the cost of getting money, would have been not less than $175,000. If this Company had been put together, as many other companies are put together, by bankers and promoters, perfectly legitimate but not psssessed with the credit and the backing that the Imperial Oil offers to a subsiduary.

Q Now with regard to buying pipe, there are a good number of concerns that in ordinary times would be quite prepared to sell pipe to anybody who could buy it?

A Oh certainly, anybody can buy pipe.

Q It does not require a great deal of ability?

A No.

Q So long as you have the money?

A So long as you have the money.

Q You can go and buy it?

A That is right and if you buy it and pay for it and take your discount it costs you less than if you have to dicker over terms and postpone payment of your pruchase price and you pay for that and the Imperial Oil Company buys pipe, I mean when they buy pipe they pay for it and take their discount and when a subsiduary buys pipe, it is the same thing.

(Go to 1668)

Q Now, if I understand your evidence yesterday right, Mr. Hill, there was only one plant in 1926 that was capable of desulphurizing, that is the particular one method?

A One method, that is all.

Q And that was the Seaboard plant?

A Yes, that is all I know of, and that is the copper Seaboard process.

Q And I suggest to you that it did not take any particular engineering skill to put that job in, you could go to any person and ask him to set up the plant?

A That is true.

Q And all you had to know is what you wanted to do?

A Yes, that is all you had to know, and to know the place where to get it.

Q And the same applies to the improvement of the first method, the Girbotol plant?

A No, it was to a lesser extent. This plant was one of the first Girbotol plants built of its size, and was to an e tent experimental in that the Girbotol Company tried to accomplish in this plant at one shot, you might say, by mixing its reagents, both desulphurization and dehydrogenization at the same time, I mean dehydration at the same time, dehydration. That did not work, and this Company together with the Girbotol people, although think it was largely this Company, worked out a method of making it work so that the plant as it now functions is now entirely satisfactory.

Q There was just one more question, Mr. Hill, this $200,000.00 that you have taken for going value, that is your judgment figure?

A Yes, that is my judgment figure. It is my judgment.

Q Pure and simple?

A It is my judgment of what that additional value is that attaches to this property and business.

Q That is all.

THE CHAIRMAN: Mr. Harvie?

.....

CROSS-EXAMINATION BY MR. HARVIE

Q In Exhibit 59, Mr. Hill, on page 8, in any event the way I read that, you deal with the matter of amortizing the land values, but I think maybe you left it somewhat indefinite as I understood it. You state that it should be amortized but in figuring it you said on account of the small amount of it you had not prepared it?

A I did not depreciate it. I said it should be amortized. In the United States the usual practice, the usual prescribed method by Public Service Commissions, and I think by the Federal Power Commission, their requirements are that land is to be treated as a fixed amount of money. You pay for certain land at a certain amount of money, you book that and that sits on your books undepreciated and unamortized and when the plant is finished you sell the land, and presumably you get your money, you get a return on it, and you are not allowed to get the cost through amortization and you are not allowed to depreciate it the way you are allowed on other items and on other properties. I think there is a flaw in that reasoning in connection with the land used by these Gas Companies with regard to the pumping stations on there, they are worth intrinsically more, but they generally speaking in my experience never recover the money from the sale of the land when the facilities

are no longer there. I say that land costs should be amortized the same as any cost of any other item; or physical property, and if I had been consistent I would have depreciated that land in my estimate but I did not do it. The amount was negligible and I followed the United States practice and uttered a protest against the United States practice in the method of recovering that price.

Q Now, in dealing with the item on Page 10 of the same report at the top of the page, you said:

> " The result was a determination of accrued physical depreciation of 5.52 per cent in the gas gathering lines, as a weighted average. As the lines are, on the average, probably about seven years old, they have an indicated life expectancy of fifty years or more."

And then in commenting on that in your evidence you did pass some remark, but I would just like to get your view as to whether you meant by what you said that if at the end of 25 years there would not be a salvage value of one-half, if it had a fifty year expectancy?

A No. The salvage value is what is left after you have taken the pipe out of the ground and cut it in proper commercial lengths and cleaned it and sold it or used it some place where it is of value. Now that salvage value depends of course on the market of that pipe at the time you salvage it. It also depends on what it costs you to take it out, take it up. Ordinarily it costs you about half as much to take pipe up as it does to lay it. Now I made no attempted estimate of the salvage value if this property.

But your thought is that if the pipe had a fifty-year life expectancy, and at the end of 25 years I examined it, I would find that it would be in a 50% physical condition. It might or it might not. It might be in a 40% or it might be 60%, or some other condition depending what harm the soil has done, but from the accounting standpoint it wouldbe a 50% condition if we start out with the estimate of 50 years' life.

Q That is you are depreciating over 50 years?

A Yes,it would be depreciated about half in half the time. Your salvage comes in to a small extent, and you might get 5% salvage, so that you would depreciate 95% of your pipe line cost instead of 100%.

Q And that 5.52 in the gathering lines, is that applicable only to the pipe?

A No, that tookinto account the covering also.

Q And the ditching?

A Oh yes, that depreciated the ditching the same as it does the rest of it.

Q So that on a fifty-year expectancy basis, if it was salvaged at the end of 25 years, it would be necessary to depreciate your ditching and labour value 100% in order to get your money from it.

A Yes, and yet you would naturally find that you were not getting a salvage of over 10% if your pipe was in a 50% condition because of the expense being taken up, the expense involved in taking the pipe up. I never heard of salvage being allowed to figure in engineering work in pipe lines where they were expected to stay in the ground for a good many years.

Q Have you had any experience as to what the condition of the

pipes in Turner Valley are after some years in use?

A Yes, I have. I have probably made 100 inspections of the pipe lines of this Company and the Valley Pipe Line Company in Turner Valley, I would say between 75 and 100. Particularly I made one in 1938 and I made some in 1943.

Q And what did you find?

A Well the soil is not particularly harmful to pipe, except in certain spots. In certain places it is quite corrosive. The soil is generally sandy, made up of sand and pebbles and small boulders, and quite dry. The Royalite Company has adopted the practice of coating the pipe with a mixture, with tar, and a wrapper, and that seems to, in this area, seems to give perfect protection for many years. When I examined the pipe in 1943, I was not able to use a depth gauge on nine or ten out of the 24 inspections because the pipe was just as good under the coating as when it was laid.

Q That is dealing solely with the pipe from the outside?

A Yes, that is from the outside.

Q And what comment have you got on your experience with it from within?

A I have tried to find evidence of internal corrosion in these gas lines, but never found any. I found some in the Valley Pipe Line, I didn't find it myself, the Company found it and showed it to me in one or two locations, but the only reason for internal corrosion is the presence of water where you have got sulphur in the gas or in the oil, and apparently in this field they do not have any water with the gas, so that I have not found any internal corrosion, and I do not know of any

reason why there should be any.

Q So that from that standpoint the pipe is left in good shape even after long use?

A That is what has been my experience.

Q Have you had any experience in handling pipe that has been in use for some years?

A Yes.

Q In gas service, as to the effect we will say for using in another line?

A Yes, I laid fifty miles of 20 inch solid line in Texas, most of which was used for many years in another location in Texas.

Q I would like to know about Turner Valley?

A No, I have never laid a line there like that, but I have seen pipe that has been relaid. I have seen lines in the process of being removed from former locations getting relaid and examined that pipe quite carefully inside and outside, and there was very little outside deterioration and none inside.

Q And have you had any occasion to know that pipe that has been used in the gas service for some years is difficult to weld?

A No, I never heard of it.

Q You have never heard of it?

A No.

Q I think it is in evidence in the early part of the Inquiry that that was the case?

A I cannot see why it should be. I have never had that experience myself.

Q In the matter of valuing these whole lines, did you take

it on the basis of, I understood you to say, that is replacement on a fair basis and observed depreciation, and how do you treat the labour and installation charges, as depreciation?

A If I find a piece of pipe at the point I have inspected it, we will say, has depreciated 10%, 10% of its useful life has gone, I write 10% off the entire installed cost of labour and material of that line.

Q I think in Mr.Steer's cross-examination you dealt with the matter of the duplicate use of the gas gathering lines?

A Yes.

(Go to page 1675)

Q And I gathered from you that they are used for the duplicate use of gathering wet gas for the absorption plant and the other use of gathering wet gas for the ultimate purpose of having it dry gas to the market?

A There is no division in the pipe line, once it gets into the pipe line, it is all the same gas and it goes to the No. 1 Compressor Station. It may go to No. 3 and then eventually go up to No. 1, but it is pumped up to the pressure required to put it into the Calgary Gas Company's system, plus about fifteen pounds to allow for the friction through the two sets of scrubbers, the gasoline plant scrubbers and the desulphurization plant scrubbers, then it goes through the gasoline plant itself to take out the gasoline and the dry gas goes to the desulphurization plant and from there it goes to Calgary.

Q Would you say there was any additional cost, in gathering that as a wet gas is there any additional cost incurred in the installations and operations up to the absorption plant, costs for any service that is purely on account of the absorption?

A Yes, whatever the amount of the gas is that is used up in the gasoline plant or used up in the fuel at the power plant or the steam plant, whatever proportion of that is chargeable against the gasoline plant is charged as, I understand, the Company credits the operation of the utility with a proportionate share, with its full share of that extra cost. They pump more gas, they pump a little higher pressure gas to the gasoline plant but that as I understand it is taken into account in their books in their accounting.

Q So that if that figure should be 15% there should be a charge of 15% to the absorption plant?

A The Madison operating expenses would be credited by whatever the cost before the gas is, whatever the measure of the cost is of transporting the gas that is not sent into the utilities main.

Q That is all.

CROSS-EXAMINED BY MR. BLANCHARD:

Q Mr. Hill, if you will turn to Page 6 of Exhibit 59 you say, "Labour costs are based on present wage scales paid by the Company in the Turner Valley field, assuming pre-war labour performance and normal pre-war overtime payment policies. No weight was given to excess labour costs due to abnormal overtime." Now I just want to see if I understand clearly what you mean. Do you mean that you have made your valuation on a basis that is something less than the reproduction costs in these abnormal times?

A Yes sir, that is true.

Q And to what extent?

A To what percentage? That question is hard to answer because there is the important material prices to be taken into account and you have to take into account all of the war time increases. The labour costs that I used was in my opinion approximately three-quarters of what they could be normally expected to be on latest construction in Turner Valley at the time of my valuation.

Q You have allowed a deduction of 25% for labour, that is of its value and the value of that labour?

A That is true. I cannot prove it because I have not built anything in 1943 in Turner Valley but I know what the Company paid in 1944.

Q Well I want to know why you did that?

A Because I did not think it was right. I did not think that that condition would last.

Q You did not think that condition would last?

A No.

Q All right. So that you thought it a fair thing to deduct 25% from the value of the labour?

A Well I did not deduct it, I just didn't put it in to start with.

Q Well it comes to the same thing?

A Yes, it comes to the same thing.

Q You did not put it on. You put your figure 25% below the value, that is right?

A Yes.

Q Because you considered it abnormal and that it would not last?

A Yes.

Q Now then, don't those same considerations, that is the abnormal labour costs, apply in the manufactured materials, in the manufactured equipment, and in the manufactured anything else?

A No, they do not sir, because these things - - they do to a little extent. That is, the full additional cost of manufacturing equipment is not reflected in the equipment price today because of the additional volume that the manufacturer is making, and it lowers his profit margin per unit, but it still gives him an adequate yearly profit.

Q Yes and is not that inefficient labour situation still there?

A It is still there.

Q And whether or not it is in seeing what you see in the Turner Valley field or what occurs that you do not see in the manufacturing of equipment and machinery it is still there?

A It is still there but it is not reflected in my judgment in the price which you pay for the equipment to its full extent.

Q But it is there whether you see it or not?

A It is there.

Q And if you think it is unfair to charge this abnormal cost in labour in the field here why would it not be fair to use your reproduction cost bases at a time when costs are not abnormal as they are now?

A Because I am not at all certain that we are not entering into a period of higher prices generally the same as we did at the end of the first world war.

Q I understood you to say you did not think these abnormal costs would last?

A I do not expect that they will last. That is I am talking now about abnormal overtime payments and inefficiency of labour. That won't last. But I am not at all certain, in fact I apprehend that we are entering into another period of higher prices the same as we entered into after the last world war, which never went away.

Q Generally speaking what is the percentage in the cost of material, installation and all the other factors you have taken into consideration in pipes. What is the proportion of the cost of labour?

A In pipes. In making the pipe or in laying it?

Q No, in laying the pipe?

A I would say it is not over one-third of the total cost. I

can get that exactly from my sheet. It is less than half and you can see there on any particular size what I figured for materials and for labour.

Q Possibly you can pick it out more readily than I can. I just saw this this morning.

MR. CHAMBERS: By the way we have extra copies of this.

A Well take the six inch pipe which is a standard size.

Q Six inch?

A Six inch welded pipe and my labour cost is almost exactly one-third of my material costs and almost one fourth of the total cost.

Q I suppose the problem of labour costs and the costs of manufacturing goods varies in different types?

A It does vary. You cannot make a settled figure.

Q Can you fix about the average in pipe line work or pipe, I mean the manufacture?

A In the United States today the cost of pipe line labour, of constructing pipe lines is almost double what it was in 1941 and the price of the pipe and materials is not up over ten or fifteen percent. You have an abnormal picture. If you build a pipe line today you have to figure almost as much for labour as you do for materials in the States because you have a distorted picture on account of the labour situation which does not exist in this appraisal. I would say that pre-war we ordinarily figured not over one-third of the cost of the pipe line for labour.

Q Now then - -

A Now it is half, or substantially half.

Q What I was really trying to get at was this, Mr. Hill, and perhaps you have understood me already and that is that if

you considered it fair to adjust, to reduce the reproduction cost and make the reproduction cost so much less by reason of abnormal labour conditions in construction in Turner Valley that the same should apply in fixing an index we will say, for everything, materials and so on because labour enters into all of them.

A It does enter into all of them and if I had been as certain that the present day high, relatively high price of materials was temporary, I would have made an adjustment on that account. But I am not certain.

Q You had enough confidence that it would go down to - -

A I only take off the things that management can cure. Management does not have any control over labour costs, relatively speaking, today.

Q What is the predominating class of labour used in your pipe line construction?

A It is about fifty-fifty between skilled labour, common labour which is not unskilled but is semi skilled. It runs about fifty-fifty between what you might call common labour and skilled labour.

Q Do you know what wages were being paid to that labour?

A Yes.

Q In 1943 when you made your appraisal?

A Oh yes, I worked out my cost from a knowledge of those wages.

Q What were the wages?

A They were approximately sixty cents an hour for common labour and about a dollar an hour for top skilled labour and seventy-five cents for semi skilled.

Q And what was the standard rate of wages for that same class of labour in 1938, do you know?

A Yes, they were about ten cents an hour less. The living cost is the only difference. That is you have in Canada a very excellent system of price control which functions very well and there is a definite increase per minute and that is the increase that I took into account. It is about nine cents an hour as I recall it in common labour.

Q Common labour about nine cents an hour more than in 1938?

A That is right.

Q And your semi skilled?

A The cost of living bonus is the only thing I take into account in what I added to my 1938 price.

Q That is all you add to the seventy-five cent scale?

A That is when I use seventy-five cents in 1943 that included the cost of living bonus which was fixed in this country and to get the 1938 scales I subtract that cost of living bonus from the seventy-five cents and it comes down to around somewhere about sixty-five cents.

Q What about your skilled labour?

A The same thing applied.

Q Just a dollar less the cost of living bonus?

A Yes.

Q And that reflects the comparative rates of wages in 1938 to 1943?

A That is right.

Q Now is it your opinion that prices for labour and materials, say at November 15th, 1943, the date of your appraisal, that that is as fair a criterion of the determination of values as if you took an average for the last five years?

A I think it is, yes. I think it is more fair for the future.

Q You think that prices will remain on a high plateau?

A I think that they will be on a higher level post war than they were pre-war.

Q Except labour. Except the value of labour?

A I think labour will too. At least I think there is every indication that labour will command a higher wage also. I am basing that largely on the experience after the first world war when prices, labour costs since the first world war, labour wages almost doubled in a very few years after that war. And they have stayed up and kept on going.

Q But materials went down after - -

A Temporarily but they came up again.

Q They went down again in the 30's?

A They did.

Q And throughout the whole of the 30's?

A Throughout the first half of the 1930's they were low.

Q You were saying when we were speaking of the fact that you gave no weight to the excess labour costs due to abnormal overtime, that you made an allowance of possibly 25% below the actual cost. Now did you apply that when you treated the installation costs of machinery and equipment?

A Yes.

Q As well as pipe lines?

A I based my general scheme of pricing the installations of machinery on pre-war performance.

Q I would like you to refer to Page 50 of your appraisal. There you have, it is under Gas Purifying Plant, you have installations, foundations, lagging, piping, valves and fittings for reactivators and level control. That is the labour in connection with the level control?

A It is more than labour. It is - -

Q You put that in at new value $8,147.00, that is correct is it not?

A That is correct.

Q $8,147.00. Now the actual book cost of that was $8,146.65?

A Yes.

Q There is a difference of .35¢?

A Yes.

Q What weight did you give there to the abnormal conditions?

A Well that machinery was put in in 1941 or 1942. You notice I depreciated that down to some $7,000.00, odd dollars. $7,740.00. I depreciated it for a year. That machinery was put in by the Company's forces and in my opinion the Company's forces in 1941 and 1942 did work as effectively as they did pre-war.

Q So you did not give any effect there to it?

A I did not give any effect to it there.

Q Your statement on Page 6 does not apply generally then?

A I do not believe the Company paid any excess costs. No, I would say my statement does apply.

Q What?

A My statement does apply. I do not want to change it because I think the Company in 1941 and 1942 did not incur the kind of excess cost that it incurred in 1944 when it tried to do a substantial volume of construction.

Q You made no allowance for abnormal labour conditions in the following items on that page for installation?

A I took my labour costs and my installation costs generally from the books.

Q Yes, you took the exact book costs?

A Yes. But I did not do it blindly. I had an opportunity of

discussing matters with the Company's people as to how they handled their work and what their labour problems were.

Q I am wondering why you took the 1942 price, or 1941, rather than the reproduction costs of 1943?

A Because I did not know of any way to estimate anything any better than the costs that had been incurred within a year.

Q And you did not increase it?

A I did not increase it.

Q Had there been an increase in costs in that interval?

A Not a substantial increase.

Q Nothing substantial?

A No, maybe three or four percent possibly but nothing more than that.

At this stage the Hearing was adjourned until 9.30 A.M. 11th April 1945.

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